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IN THE

Supreme Court of the United States

October Term, 1967

No. 906

ROVICO, INC.,

Petitioner,

against

AMERICAN PHOTOCOPY EQUIPMENT COMPANY,

Respondent.

PETITIONER'S REPLY TO RESPONDENT'S BRIEF IN OPPOSITION TO PETITION FOR WRIT OF CERTIORARI

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I. Reply to Respondent's Reasons for Not Granting Writ (Questions 1, 2, 3 — Exorbitant and Oppressive Royalties).

A. Legal Aspects of Exorbitant and Oppressive Patent Royalties.

Regarding the question "whether the leverage of a patent may be used to exact exorbitant and oppressive patent royalties," Respondent's Brief (p. 5) asserts that:

> "In the first place, this Court has already resolved this issue. In *United States* v. *General Electric Co.*, 272 U. S. 476, 489 (1926), the Court stated:

> "'. . . the patentee may grant a license to make, use and vend articles under the specification of his patent *for any royalty* or upon any condition the performance of which is reasonably within the reward which the patentee by the grant of the patent is entitled to secure.'" (Emphasis supplied by respondent.)

This begs petitioner's Question 1 which seeks to ascertain whether it is the meaning and intent of this decision to sanction and approve a royalty which is *not* reasonably within the patent reward.

The very case which respondent cites, *Stearns* v. *Tinker & Rasor,* 252 F. 2d 589 (9 Cir. 1957) appears to construe *General Electric* as holding that a patent owner is "legally allowed" to charge a royalty which would enable him to realize no more than the reward to which he is entitled (252 F. 2d at p. 604):

> "Stearns owns a patent on a particular device and is legally allowed to charge for the grant of a license an amount that will allow it to realize the reward to which, as the owner of the patent, it is entitled."

Respondent's Brief (pp. 5-6) states that "petitioner is unable to cite a single decision in which the amount of the royalty charged, however, high, has been ruled to constitute a patent misuse". Respondent forgets the first decision of the Court of Appeals in this case (359 F. 2d 746, March 3, 1966) wherein the Court held (A7) that:

> "* * * the royalty policy of plaintiff is in violation of the antitrust laws of the United States, being exorbitant and oppressive."

Respondent (Brief, pp. 3-4) seeks to minimize the significance of this decision by attributing it to a pleading deficiency:

> "* * * this decision of March 3, 1966 * * * was not based upon any record except the allegations of petitioner's counterclaim which the Court found were not properly challenged, and an affidavit of petitioner's president * * *."

But even the District Court would not accept this argument, as appears from the following colloquy at the Hearing of April 29, 1966 (Tr. 10):

> The Court: * * * I am not impresssed with your argument, Mr. Crown, that it is based only on the failure to deny it in your responsive pleadings and that it stands admitted because I must not be blind to the fact that we tried this case and the evidence in the case indicated that the testimony wouldn't have been any different.
>
> Mr. Crown [Respondent's Attorney]: I am not asserting that it would be any different, your Honor.
>
> * * *

Question 1 and the other antitrust Questions presented herein for review have generated great interest among those who are concerned with the interrelationship between the patent and antitrust laws, and the present proceeding is widely regarded as a test case which will have broad application and far-reaching consequences. Annexed hereto as Appendix A is a report concerning the instant Petition for Certiorari in the December 26, 1967 issue of the Antitrust and Trade Regulation Report of The Bureau of National Affairs.

B. Factual Basis of Question 1.

Respondent's Brief (p. 6) states that:

> "* * * if the law really needed clarification as to whether 'exorbitant and oppressive' patent royalties are illegal, the present case is not the proper vehicle therefor, since the courts below made concurrent findings that, under the circumstances here, there was 'no unreasonableness' in the royalty charged (A27; A42-43)."

The following is a brief discussion of the three factors listed by respondent (Brief, p. 6) as having been "cited by the District Court in ruling the royalties reasonable":

> "(1) the patent owner itself paid, for its own operations under the patent, an amount equal to twice the royalty paid by its licensees for the same rights of manufacture and sale (A27)" (Respondent's Brief, p. 6).

Respondent has paid nothing "for its own operations under the patent". What did it pay for, was found by the District Court as follows (A12):

> "* * * after the Court's ruling in the Seventh Circuit litigation [*Copease Mfg. Co.* v. *American Photocopy Equipment Co.*, 298 F. 2d 772], APECO, plaintiff herein, and defendant there, purchased the entire capital stock of Copease Mfg. Co., for the sum of $5,450,000 (Stp. of Oct. 25, 1965), including the Eisbein patent and the licenses previously granted thereunder."

But even this payment has in part been recovered. During the period June 18, 1962 (when respondent acquired the patent in suit) through September, 1965 (the eve of

trial), respondent collected $924,065.86 in damages and royalties under the patent (1b, 5b). It subsequently received additional sums in payment of damages and royalties; it was itself saved from paying the treble damages which were awarded in the *Copease* case; and it was and is able to operate under the patent royalty free.

> "(2) the licensee pays no royalty on its sales of paper and chemicals which are generated by use of the licensed machines which it has sold, and since these supply sales average as much as three times the machine sales * * * the royalty actually amounts to less than 2% of the total sales which the patent makes possible (A27)" (Respondent's Brief, p. 6).

Regardless of how small the royalty may seem when computed on sales of unpatented materials used in the patented machine, it remains 24 percent of the licensee's (manufacturer's) selling price of the only article on which respondent is entitled to royalties—the patented machine itself. This is conclusively shown in the following colloquy between the District Court and respondent's attorney Crown at the Hearing of April 29, 1966 (Tr. 13-14):

> The Court: They [the Court of Appeals] say, "Furthermore, defendant contends * * * that the value of the licensed part (one-half) of the machine is only half the value of the whole machine, the royalty imposed is approximately 24% of the manufacturer's selling price of the licensed half of the machine. This factual statement has not been denied by plaintiff."
>
> Mr. Crown: And we still don't deny it.
>
> The Court: That is my point, you still do not deny it. That is a fact as developed in the trial. * * *

The finding that "sales of paper and chemicals * * * are generated by use of the licensed machines * * * and * * * average as much as three times the machine sales" (Respondent's Brief, p. 6) points up a trademark tie-in between the patented machine and the unpatented materials used in the machine. This was expressly alleged and admitted in the pleadings (antitrust counterclaim, paragraph 34 and reply thereto) and confirmed by the testimony of respondent's general counsel MacLeod (Trial Tr. 1243):

> Q. Mr. MacLeod, can you state whether or not it is the custom in the industry for a customer to purchase the paper from the same company he purchases the machine from, talking about the DT or diffusion-transfer industry? A. Yes, it is customary.

It is evident that ownership of the patent and control of the industry by means of an exorbitant and oppressive royalty policy are tantamount to control of the sale of the unpatented supplies for the patented machine.

> "(3) the prices of the licensed machines actually declined after the licenses were granted (A27)" (Respondent's Brief, p. 6).

Respondent well knows that competition, not reasonable royalties, brought about the price decline. So testified respondent's general counsel MacLeod on examination by respondent's own attorney Conner (Trial Tr. 1245-1246):

> A. * * * our prices have declined, and to my knowledge, in general, prices of competitors' equipment have declined due to the intense competition existing in the industry in the past few years.

C. The Retail Selling Price Is an Uncertain and Indeterminate Royalty Base.

Respondent's Brief (pp. 7-8) states that:

> "the royalty is computed, for purposes of simplicity and *certainty,* on the [retail] selling price of the entire machine." (Emphasis supplied.)

But the purpose of certainty is not served by applying the royalty to the *actual retail selling price,* since there is no way of determining what that price will be. Respondent accordingly computes its royalty on a *retail list price* fixed by the manufacturer—licensee (140a):

> Q. [By petitioner's attorney Stoll] * * * in your license agreement, don't you provide for 6 per cent of the net retail selling price? A. [By respondent's general counsel MacLeod] Yes, we do.
>
> Q. And what do you use as your guide, the list price? A. Yes. As a matter of convenience, for a manufacturer who is selling to a dealer or a distributor, there is no way of determining when that machine will be resold, and at what price. * * *

Respondent knows of no procedure whereby retail sales at prices below the list price are reported back to the licensees for a royalty adjustment (Trial Tr. 1177):

> Q. [By petitioner's attorney Stoll] * * * do you know of any procedures that your licensees have set up whereby retailers report back to them and tell them at what price their machines are sold? A. [By respondent's general counsel MacLeod] No, I do not.

Respondent knows of no cases in which retailers have in fact reported their selling prices back to the licensees for a royalty adjustment (Trial Tr. 1177):

> Q. [By petitioner's attorney Stoll] And you do not know whether any retailers have reported back the prices at which the machines have been resold?
>
> * * *
>
> A. [By respondent's general counsel MacLeod] * * * Except for that [settlement procedures for determining damages in infringement litigation] I don't know of any specific cases.

Nor have any licensees reported such retail prices back to respondent for a royalty adjustment (Trial Tr. 1178):

> Q. [By petitioner's attorney Stoll] * * *have any of your licensees actually reported back to you that there is, in fact, or was, in fact, a difference between the suggested or list price and the actual price at which the retailer sold machines and on the strength of that requested a [royalty] refund? A. [By respondent's general counsel MacLeod] Except for past damages, settlements * * * not to my knowledge, no.

D. Actual Effect of the Royalty on the Industry.

The decision of the Court of Appeals in the preliminary injunction proceeding (359 F. 2d 746, March 3, 1966, A10) provided that:

> "* * * this cause may proceed to trial on the merits, unaffected by the findings of fact and conclusions of law heretofore made and entered into by that [District] Court in this case." *

---

* This directive for a further trial was made with full knowledge of the fact that the main trial had already been held:

> Mr. Crown: * * * the Court knew before it made this decision the case had been tried both from oral argument and in writing * * *. (Hearing of March 7, 1966, Tr. 18).

Pursuant to this directive, petitioner made an Offer of Proof of the disastrous effect of the exorbitant and oppressive royalty upon the industry. This Offer of Proof, annexed hereto as Appendix B, was based on affidavits supplied by respondent's licensees in consequence of said decision of the Court of Appeals.

The District Court initially responded to the directive to proceed to trial in the following manner (Hearing of April 29, 1966) (Tr. 6):

> The Court: * * * They [the Court of Appeals] go on to say, in the last sentence of their opinion, "Of course the cause may proceed to trial on the merits, unaffected by the findings of fact and conclusions of law heretofore made and entered into by that Court in this case."
>
> However, it would seem to me to be a useless waste of time to put this case to trial again because, on the admitted fact, the royalties that the defendant talked about, 6 and 12 and 24, seemingly are not in dispute.

• • •

(Tr. 8):

> The Court: * * * the actual testimony in the case, the arithmetic isn't disputed.
>
> Mr. Crown [Counsel for respondent]: The arithmetic is not but the question of exorbitancy certainly is.
>
> The Court: Well, the question of exorbitancy would not be for the witness to testify. That would be for the Court to determine and, regardless as to what I would say here, if I held this was not exorbitant—they have said it is, that it is an oppressive royalty * * *.

• • •

(Tr. 9):

> There isn't anything I can do and I am certainly not going to defy them. * * *

Nevertheless, on June 20, 1966, without any further trial proceedings,* the District Court rendered its decision and held, *inter alia,* (A30) that:

> "This Court is satisfied from the evidence introduced at trial that the royalty at issue is neither exorbitant nor oppressive * * *."

The District Court's refusal to proceed to trial pursuant to the directive to do so, was a rejection of petitioner's Offer of Proof of the impact of respondent's licensing policy upon the industry.

On appeal, the Court of Appeals struck the Offer of Proof from the appeal record (A45-46),** and thereby affirmed the District Court's refusal to consider it or to proceed to trial with respect to it. On the other hand, the dissenting opinion of Judge Schnackenberg did take the Offer of Proof into account. We refer to his finding (A44) that "the actual royalty, applied to the manufacturer's selling price, ranges between 24% and 136%".

It is respectfully submitted that the refusal of the lower Courts to consider petitioner's Offer of Proof was in

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* The statement in the District Court's decision (A30) that "The Court of Appeals instructed this Court to proceed to trial of this case on the merits. We have done so * * *", refers to the trial which was conducted *prior* to the Court of Appeals decision.

** It is stated in the order striking the Offer of Proof (and other items) from the appeal record (A46) that petitioner "admits they are not properly part of the record on appeal". Petitioner never made any such admission. The Court inadvertently attributed to petitioner a statement made by respondent.

utter disregard of the public interest and contrary to the policy of this Court in matters involving misuse of the patent privilege (*Mercoid Corp.* v. *Mid-Continent Inv. Co.*, 320 U. S. 661, 669; 64 S. Ct. 268, 273, 1944, as quoted in the earlier Court of Appeals decision in the present case, A8):

> "It is sufficient to say that in whatever posture the issue may be tendered courts of equity will withhold relief where the patentee and those claiming under him are using the patent privilege contrary to the public interest."

II. Reply to Respondent's Reasons for Not Granting Writ (Question 4 — Royalties From Unpatented Machines).

A. The Royalties are Derived From Unpatented Machines.

Respondent's Brief (pp. 7-8) alleges that:

> "* * * respondent has never charged a royalty on unpatented machines. The royalty is payable only on machines which incorporate the patented developer mechanism. Where the exposure and developer mechanisms are sold as separate units, the royalty is payable only on the latter * * *. Where the licensee elects * * * to combine both mechanisms in a single machine, the royalty is computed * * * on the selling price of the entire machine."

This is a double-talking admission that respondent derives royalties from the unpatented exposing machine (or from the unpatented combination of both machines)

and this is confirmed by the following testimony and colloquy (141a; Trial Tr. 1196):

> Q. [By petitioner's attorney Stoll] * * * the royalty is paid on the entire machine, is it not? A. [By respondent's general counsel MacLeod] That's correct.
>
> Q. And that includes the part that is not patented, namely, the exposure device? A. That's correct.
>
> ---
>
> The Court: * * * is there any question about the royalties being paid on any machine that is under one housing or casing if it contains a patented device?
>
> Mr. Conner (Respondent's attorney): None whatsoever, your Honor. We will concede that.
>
> The Court: So there isn't any question about it. It may contain non-patented articles, but if it contains the patented device under one housing or casing, that royalty is paid regardless of what the price of the machine sells for?
>
> Mr. Connor: That's correct, your Honor.

B. The Patented Developing Machine and Unpatented Exposing Machine are Separate and Distinct Machines.

1. The patent does not cover the diffusion transfer photocopy process or a diffusion transfer photocopy machine.

Respondent's Brief (pp. 2-3) quotes respondent's witness for the proposition that:

> "* * * you cannot practice transfer diffusion photocopying without both exposure and developing. One unit is no good without the other."

But this is wholly irrelevant since the patent in suit covers neither the diffusion transfer photocopy *process* (exposing plus developing) nor a diffusion transfer photocopy *machine* (exposer plus developer). All that the patent discloses and claims, as found by the District Court, (A12) is:

> "a machine for performing the development stage alone".

2. Each machine is of significant utility without the other.

Respondent's Brief (p. 2) asserts that "neither mechanism is of any significant utility without the other".

On the contrary (if this is at all material to the issues herein), the unpatented exposing machine is entirely conventional and is used in conventional photographic printing processes. As respondent's expert Hill testified (Trial Tr. 284), the patented developing machine may be used with "Any exposure device".

Similarly, the patented developing machine is used in conventional developing processes which have nothing to do with diffusion transfer (Eisbein patent, col. 1), e. g., developing photo-offset printing plates (Trial Tr. 113) and monobath and stabilization processing (Trial Tr. 642-646).

3. The patented developing machine and the unpatented exposing machine are separate machines.

Respondent's Brief (p. 2) takes issue with the assertion in the Petition for Certiorari (p. 10) that, although the patented developing machine and the unpatented exposing machine occupy the same cabinet and are driven by the same motor, they nevertheless are "separate machines".

But the machines *are* separate. They function in a common cabinet and with a common motor precisely as they

function in individual cabinets and with individual motors, neither machine affecting or modifying the operation of the other. Each machine functions independently of the other and regardless of the presence or absence of the other. Indeed, either machine may be rendered inoperative or even physically removed from the cabinet, and the other will nevertheless continue to function equally as well as before. The products of their respective operations are identical, whether processed in two cabinets or in one.

This is well known to respondent, and its representation to this Court (that the two machines are one) is directly contrary to its representation to the District Court in *Copease Mfg. Co.* v. *American Photocopy Equipment Co.*, 298 F. 2d 772 (7 Cir. 1961).

On June 14, 1966, petitioner brought the following *Copease* trial testimony to the attention of the District Court in the present case. (Tr. 605-606):

> By Mr. Conner [Attorney then for Copease, attorney now for respondent]: * * *.
>
> The defendants [respondent herein], in furnishing us those figures on the sales of machines, furnished us only a proportion of the total sales which they allocated to the developer portion of the machines where they sold what they called the Systematic machine, including both the developer and exposure sections.
>
> The total machine brings maybe $300.00, and they figured $150.00 for the exposure and $150.00 for the developing section and gave us the figures of sales only on the developer section.
>
> * * *

(Tr. 608):

> By Mr. Jenner [Attorney then and now for respondent] * * * What counsel wants to do is expand this record and get large figures by also including in the record the exposure box, which has nothing to do with the patent in suit * * *.

C. Inequity of Royalty on Combined Machine.

Respondent's Brief (pp. 7-8) states that:

> "Where the exposure and developer mechanisms are sold as separate units, the royalty is payable only on the latter * * *, Where the licensee elects, for reasons of economy of manufacture, compactness and operating convenience, to combine both mechanisms in a single machine, the royalty is computed, for purposes of simplicity and certainty, on the selling price of the entire machine."

But it would be equally simple and certain to charge the same royalty on the combined machine that is charged on the patented developing machine alone, since it is the developing machine alone, whether mounted in its own cabinet, or sharing a cabinet with another machine, which is licensed under the patent.

Under respondent's licensing policy, while the *royalty rate* (6% of the retail selling price) remains constant, the *actual royalty* increases in direct proportion to substantial accretions in value which are entirely unrelated to the patent in suit, such as the added value of the unpatented exposing machine, and various devices which are covered by other patents, including automatic three-sheet (original, negative, positive) feeding and transporting machinery, automatic developing liquid storing and feeding apparatus, and a paper storing and dispensing mechanism (Trial Tr. pp. 1191-1196, 1211).

Moreover, the royalty increases with every price markup after the machine is sold by the manufacturer-licensee. It increases when the distributor sells to the wholesaler; it again increases when the wholesaler sells to the retailer; and it increases once more when the retailer sells to the ultimate consumer.

The inequity of respondent's licensing policy was recognized by the District Court at the Hearing of April 29, 1966 (Tr. pp. 8-9):

> The Court: * * * It doesn't make sense and it does offend my sense of equity—when you take a patented article that may sell, whether it is for $50 or $100, and you put it in a cabinet and it sells for $400 or $450, that the licensor should receive a royalty on the entire instrument. But, the fact is, that you persuaded me and I was persuaded on the cases from the Supreme Court that you cited because they said that is the law.
>
> * * *
>
> I am frank to say that while I was convinced at the time I tried the case that that was the law, the fact that it was didn't mean that I should like it, and I didn't like it then and I don't like it now. I just think it is an unrealistic approach when licensors should receive royalties on unpatented articles, but, that seems to have been the law and there is language both ways, but, apparently, some of the cases that I read in the Supreme Court indicated that there didn't seem to be much dispute as to their right to do it. * * *

The public importance of Question 4 presented for review is fully demonstrated by this statement of the District Court.

III. Relevant Market

Respondent's Brief (p. 3) raises the question of relevant market by citing the District Court finding that the patented machines "account for only 10 per cent of the photocopying machine market" and that "the bulk of the office photocopying market is not involved".

But the question of relevant market was anticipated and answered in the Petition for Certiorari (p. 11). There is no evidence in the present record of any relevant market outside of the diffusion transfer photocopy industry occupied by the respondent and its licensees.

This is not a small industry, as the hearsay testimony of respondent's witness MacLeod (quoted in the Petition, p. 11) would have the Court believe. Referring to the patented machine and the paper and chemicals used therein, respondent's attorney Crown made the following representations to the District Court following the earlier Court of Appeals decision herein (Hearing of April 29, 1966, Tr. 22):

> "* * * this developing device gave rise to a tremendous industry * * *."
>
> "* * * this patent gave rise to an entire industry, some $288,000,000 * * *."

Additionally, relevant market is irrelevant in cases of *per se* violation of the Sherman Act, e.g., price fixing and deriving patent royalties from unpatented articles. *International Salt Co.* v. *United States,* 332 U. S. 392, 396; 68 S. Ct. 12, 15 (1947). Question 3 presented for review deals with price fixing; Question 4 with patent royalties derived from unpatented articles.

If this Court should hold (in answer to Question 1) that exorbitant and oppressive patent royalties (royalties in

excess of "reasonable reward") are as much "an expansion of the patent monopoly" as patent royalties derived from unpatented components of a patented combination (*Mercoid Corp.* v. *Mid-Continent Inv. Co.*, 320 U. S. 661, 666; 64 S. Ct. 268, 273, 1944), or patent royalties derived from unpatented products used in patented machines (*International Salt Co.* v. *United States*, 332 U. S. 392, 396; 68 S. Ct. 12, 15, 1947), or patent royalties projected beyond the life of the patent (*Brulotte* v. *Thys*, 379 U. S. 29, 32; 85 S. Ct. 176, 179, 1964), then exorbitant and oppressive patent royalties will join the ranks of *per se* violations of the antitrust laws.

IV. The Patent Dominates the Industry.

Respondent's Brief (pp. 3-4) states that:

> "Petitioner bases its assertion that the patent in suit dominates the industry and that respondent and its licensees comprise the bulk of the industry on a finding by the Court of Appeals in its earlier opinion of March 3, 1966 (A10)."

On the contrary, as the Petition for Certiorari clearly shows (p. 11), this assertion is based directly on the testimony of respondent's own witness MacLeod. Furthermore, the fact that the patent dominates the industry and that the respondent and its licensees comprise the bulk of the industry, is conceded in respondent's own briefs, e. g., "Apeco's Supplemental Memorandum Submitted [to the District Court] in View of the Seventh Circuit's March 3, 1966 Opinion" (p. 4):

> "Without the Eisbein patented structure in the DTR machines, the entire DTR industry would be non-existent. * * * The leading companies in the

DTR field are all licensed under the Eisbein patent * * *."

Domination of the industry is further evident from the fact that virtually all of the licenses under the patent in suit were granted in consequence of infringement litigation. This appears from respondent's stipulation Exhibit B (5b) and the following statement in respondent's Trial Exhibit 6 (p. 2):

> "* * * American Photocopy Equipment Co. * * * in this District alone [Northern District of Illinois] has filed a total of ten lawsuits for infringement of said patent. Eight of the defendants in such actions have taken consent decrees and have paid to plaintiff [respondent] over one-half million dollars in damages and royalties."

V. Re: Respondent's Reply to Petitioner's Question 5 (Respondent's Restated Question 3).

Respondent's Brief (p. 2) restates petitioner's Question 5 as follows:

> "3 (former 5). Was it error to exclude a deposition taken in another action between different parties, where the deposition was inadmissible even in the action in which it was taken (due to the arbitrary refusal of the witness to permit completion of his cross-examination) and where a deposition exhibit (a letter written by the witness himself) contradicts petitioner's statement as to what the deposition would show?"

a. "Another action between different parties."

The action in which the deposition was taken was *Copease Mfg. Co.* v. *American Photocopy Equipment Co.*,

298 F. 2d 772 (7 Cir. 1961) wherein the present respondent was the defendant. Respondent is also the successor in interest of the plaintiff, having "purchased all of the capital stock of Copease Mfg. Co. * * * including the Eisbein patent [here in suit] and licenses previously granted thereunder" (A12).

b. "Refusal * * * to permit completion of * * * cross-examination".

Respondent's Brief (pp. 9-10) alleges that:

> "* * * the Boeger deposition was not even admissible in the action in which it was taken * * * because Boeger arbitrarily refused to permit completion of his cross-examination (Boeger dep., pp. 51, 52)."

This was not a ground of exclusion of the deposition by the Courts below and consequently has no bearing on Question 5 presented by petitioner for review. Moreover, there is no evidence in the present case of any refusal by the witness to permit completion of his deposition.

Deposition pages 51 and 52 cited by respondent are totally irrelevant. Presumably respondent intended to refer to page 74 which contains the following statement made at the conclusion of the examination:

> By Mr. Conner [Attorney then for respondent's assignor Copease, attorney now for respondent]: I have not completed my cross examination of this witness. I hope and assume that he will be able to return so that this cross examination may be completed. * * *

But there is no showing anywhere in the present record of any request for a further appearance of the witness or any refusal to appear. Furthermore, respondent should not be heard to complain of any alleged failure of the

witness to appear since he was respondent's own witness. Finally, the pertinent testimony sought to be used by petitioner, was elicited on Mr. Conner's own examination of the witness.

c. "Exhibit * * * contradicts * * * what the deposition would show".

Respondent's Brief (p. 10) alleges that the excluded deposition "is contradicted by Exhibit 42 to the deposition." This was not a ground of exclusion of the deposition by the Courts below and therefore has no bearing on Question 5 presented by petitioner for review. Moreover, "Exhibit 42" is not an exhibit in this case, not under that number or under any other number. It was never offered as an exhibit herein. And if it were in evidence, it would bear on the credibility of the witness and on the weight to be given to the deposition; it would have nothing whatsoever to do with admissibility, which is the Question presented for review.

d. Factual basis of Question 5.

Respondent does not challenge the factual basis of Question 5, that the Boeger deposition was excluded by the Courts below on grounds that conflict with the rules of evidence of the Illinois State Courts.

Question 5 remains a pertinent, important and unanswered question of federal procedural law.

VI. Re: Respondent's Reply to Petitioner's Question 6.

Respondent's Brief (p. 10) states that:

> "Petitioner has grossly misstated the circumstances and terms of the unaccepted 'offer' which was made to petitioner's employee in connection with his proposed testimony. The facts are correctly stated

in the affidavit which was filed in the District Court and which is reproduced as Appendix A to this Brief."

Petitioner's statement to which respondent takes exception was a direct quote—with not a word added or changed—from the decision of the Court of Appeals (A46).

The affidavit which respondent now attaches to its brief as Appendix A was stricken from the record in that very decision on respondent's own motion.

But accepting the affidavit as a correct statement of the circumstances and terms of the money offer, Question 6 remains a pertinent, important and unanswered question concerning the administration of justice.

Conclusion

The Court will, perhaps, discern from the record that the weakest, least likely member of the diffusion transfer photocopy industry has alone chosen to stand up for its rights and to sound a veritable Gideon's Trumpet in the public interest.

The path to this Court has not been smooth. It started in the District Court with a preliminary injunction granted on the eve of trial because of the probability "that defendant will be unable to respond in damages if plaintiff is ultimately successful." It led to the Court of Appeals for the Seventh Circuit and Judge Schnackenberg's landmark decision holding exorbitant and oppressive patent royalties in violation of the antitrust laws of the United States (A7, 10). This was followed by a District Court decision which effectively reversed the Court of Appeals

and held exorbitant and oppressive royalties permissible under the antitrust laws (A26). Mandamus was tried but it failed. The District Court was then affirmed by a split decision of the Court of Appeals (A42), Judge Schnackenberg standing firm in his adherence to the principles of law which he had laid down in his earlier decision (A44). A Petition for Rehearing *en banc* was denied, Judge Schnackenberg again dissenting.

If the issues which this Petition for Certiorari has raised are found to involve the public interest, it is respectfully suggested that the present opportunity to consider them may not soon be repeated, and certainly never again in connection with the diffusion transfer photocopy industry.

It is respectfully urged that the Petition for Writ of Certiorari be granted so that this Honorable Court may:

(1) determine the antitrust aspects of an exorbitant and oppressive patent royalty enveloping an industry;

(2) determine the antitrust aspects of a patent royalty on unpatented machines in unpatented combination with patented machines;

(3) determine whether F. R. Civ. P. 43(a) is mandatory on the Federal Courts, especially in connection with an issue (patent validity) involving the public interest; and

(4) condemn tampering with the administration of justice in the Federal Courts.

Respectfully submitted,

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Attorney for Petitioner.

Of Counsel:

SIDNEY WALLENSTEIN,
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February 12, 1968

APPENDIX A

BNA

antitrust & trade regulation report®

ROUTE TO

Number 337

December 26, 1967

Highlights of This Report

Supreme Court Told Patent Royalties Should Be Reasonable: Review petition insists that patent owner, who exacts exorbitant and oppressive royalties from licensees, has misused his patent and violated antitrust laws. Court is asked to construe 40-year old holding that patent owner can grant license for any royalty or upon any condition performance of which is reasonably within reward which the patent owner is entitled to secure. (A-1)

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Appendix A

NEWS

RESTRAINTS AND MONOPOLIES: SUPREME COURT ASKED TO FIND PATENT MISUSE IN EXORBITANT AND OPPRESSIVE ROYALTY

About 40 years ago, the Supreme Court held that a patent owner could grant a license under his patent "for any royalty or upon any condition the performance of which is reasonably within the reward" which the patent owner is entitled to secure, U.S. v. General Electric Co. 272 U.S. 476 (1926). Now the Court is asked to determine whether the exaction of exorbitant and oppressive royalties by a patent owner constitutes either misuse of the patent or a violation of the antitrust laws. The question is posed in a review petition filed by a company found to have infringed a patented machine used in the process of photocopying (Rovico, Inc., v. American Photocopy Equipment Co., No. 206, 12/12/67).

With one judge dissenting, the U.S. Court of Appeals for the Seventh Circuit (155 S.P.Q. 119, p. A-8, ATRR No. 320; 8/29/67) held that there was no patent misuse in basing a 6 percent royalty on retail list selling prices that result in royalties amounting to 12 percent of manufacturing costs of the entire machine and 24 percent of the cost of the patented part. Earlier, the Seventh Circuit (359 F.2d 745, pp. A-14, X-3, ATRR No. 243, 3/8/66) on appeal from a preliminary injunction thought the patent owner was charging "exorbitant and oppressive" royalty rates and was therefore guilty of misuse.

The review petition insists that the G. E. decision should be construed so that a royalty is as much a condition for license as any other condition. Consequently, the reasonable reward rule should apply to royalties as well as to other conditions. Moreover, the Supreme Court's decision in Brulott v. Thys, 379 U.S. 29, 143 U.S.P.Q. 264, pp. A-4, X-5, ATRR No. 175 11/17/65) should be interpreted as holding that the patent owner can exact royalties as high as he can negotiate provided that the royalties are reasonably within the reward which the patent owner is entitled to secure. These interpretations of G. E. and Brulott are supported by Automatic Radio Mfg. Co. v. Hazeltine Research, 339 U.S. (1950) and Standard Oil Co. v. U.S., 283 U.S. 163 (1931) and U.S. v. National Lead Co. 332 U.S. 319 (1947).

It is asserted that the Seventh Circuit's decision conflicts with two decisions of the U.S. Court of Appeals for the Third Circuit. The Seventh Circuit held that the absence of discrimination or conspiracy to fix prices is a defense to patent misuse in violation of the antitrust laws. That holding conflicts with the Third Circuit's decisions in Hanover Shoe v. United Shoe Machinery Corp., 377 F.2d 776 (p. A-13, ATRR No. 301, 4/18/67), review granted, No. 335 (p. A-6, ATRR No. 326, 10/10/67) and Newburgh Moire Co. v. Superior Moire Co., 237 F.2d 283 (1956)

The review petition asks (a) whether an exorbitant and oppressive royalty exacted from the bulk of an industry is a price fixing device; and, if so, (b) whether it violates the antitrust laws. It is asserted that the Court came closest to answering the first half of this question in Standard Oil Co. v. U.S., 283 U.S. 163 (1931) in its holding that, if combining patent owners effectively dominate an industry, the power to fix and maintain royalties is tantamount to the power to fix prices. While it is admitted that there are no combining patent owners who dominate an industry, it is insisted that there is a patent that dominates its industry. Regarding the second half of the question, it is asserted that the Seventh Circuit in its ruling on the preliminary injunction, held that the exorbitant royalty is an antitrust violation. The review petition wonders whether this is the law today and should it have been applied in the majority decision of the Seventh Circuit or is the rule of the General Electric case still in effect, sanctioning price fixing by patented licensor?

Appendix A

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Finally, the review petition insists that the Seventh Circuit incorrectly held that it is not an unlawful expansion of a patent monopoly to exact royalties from unpatented machines sold in combinations with the patented machines or from the unpatented combination from both machines. That holding conflicts with Supreme Court decisions in Mercoid Corp. v. Mid-Continent Inv. Co., 320 U.S. 661 (1944); Automatic Radio Mfg. Co. v. Hazeltine Research, 339 U.S. 827 (1950); and the G.E. case. It is insisted that any ultra vires use of a patent monopoly constitutes patent misuse and that, where "it affects an industry," it violates the antitrust laws.

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